

1

Statement of Richard D. Nicholson
Acting Commissioner of Revenue Services
Before the Executive & Legislative Nominations Committee
February 16, 2010

Good afternoon Senator Looney and Representative Janowski, Members of the Executive and Legislative Nominations Committee.

Thank you for granting me the opportunity to appear before your committee today to speak in support of my nomination by Governor Rell to serve as Commissioner of Revenue Services.

First let me tell you about my background. I am an Attorney admitted to practice before the courts of this state. I was a career employee at the Department of Revenue Services from 1979 – 2000. During that time I worked in various legal capacities starting as a Tax Attorney and working my way up to First Assistant Commissioner and General Counsel. I spent two and 1/2 years with a Hartford law firm, Shipman & Goodwin, chairing the state and local tax practice group. In February of 2003, I rejoined the Agency and was appointed Deputy Commissioner of the Department of Revenue Services. I served in that capacity until my appointment as acting commissioner by Governor Rell on July 1, 2009. I have also served on various tax professional boards, committees and task forces, as well as teaching state tax law as an adjunct professor at the Western New England College of Law.

Let me now turn to an overview of the Department of Revenue Services. First, as to its mission - the Department's mission is: to administer the tax laws of the State of Connecticut and collect the tax revenues in the most cost effective manner; strive to achieve the highest level of taxpayer compliance through accurate, efficient and courteous customer services; and perform in a manner which instills public confidence in the integrity and fairness of the Department's programs.

The Agency has identified five high level objectives that express the outcomes we seek to achieve. They are broad statements that impact nearly every operation of the Agency. These objectives allow the Agency to clearly focus on the results it must achieve:

- Collect what's due;
- Protect taxpayer information;
- Increase voluntary compliance;
- Treat taxpayers fairly and consistently; and
- Reduce the cost of performance.

The Department administers 42 separate taxes, receives 3.7 million returns each year, and collects approximately \$12.4 billion annually. We issue over 1 billion dollars in refunds in a fiscal year.

Since being appointed acting Commissioner, I have been guided by the principle that we can increase voluntary compliance by making complying easier. Stated another way, we should not burden the compliant taxpayer with complex requirements in order to catch the small minority of taxpayers who seek to evade taxes. Instead our goal should be to find ways to ferret out the tax evader without treating all taxpayers as if they are attempting to evade taxes. Obviously, we need to strike a balance between compliance burdens and protecting state revenue, and that is where we will devote our attention.

One of the ways that I believe we can make compliance less burdensome is by working with tax preparers and tax practitioners in a collaborative effort to clarify and provide guidance on complex areas of our tax law. To this end, we have formed working groups with representatives of the Connecticut Bar Association, the Connecticut Society of CPA's and business groups to explore ways to provide greater clarity in the following areas:

- Economic Nexus;
- Tiered Partnerships; and
- Nonresident Contractors

Our initial efforts have been encouraging and have resulted in positive feedback from all those involved. While there is a natural tension between tax collectors and tax advisers, both sides value the importance of these contacts.

One of my top priorities has been to insure the integrity and confidentiality of taxpayer data. We have taken the following steps to provide a significantly increased level of security:

- All the Department's laptops are encrypted with the highest level of encryption.
- No confidential data can be stored on the local drive of any computer. Rather, it must reside on the agency's secure network server.
- Confidential data that is used for field auditing purposes can only be accessed using an encrypted thumb drive requiring two forms of authentication, one of which is biometric.
- Data Loss Prevention software has been installed on all agency networks and computers. This allows us to inventory and monitor the locations of all confidential data. This technology also ensures that those who have a business need to access the confidential data are the only ones who do so. It will have the capability to detect and prevent unauthorized copying of data to other media. If a violation of security policy is suspected, the agency will be in a position to take quick action to protect and secure the data.
- All email communications with taxpayers or their representatives containing taxpayer data are sent solely through the Tumbleweed Secure E-mail System.

- New internal policies and procedures have been drafted and existing policies and procedures have been updated to address unauthorized access to confidential taxpayer information, including a mechanism to commence criminal investigations.

I am confident that with these technological safeguards in place, taxpayer data is protected by the highest level of security that is currently available.

One of our objectives is to reduce costs wherever possible. To that end, we have put increased emphasis on expanding electronic filing opportunities. We are partnering with the federal government to allow joint filing of corporation and partnership returns. These returns, when filed electronically, will provide cost savings in the areas of data capture and processing. The agency currently partners with the federal government in the federal-state E-file program for individual income tax programs.

Additionally, we have moved to a virtual audit package that is comprised of electronic documents and images that will significantly reduce the amount of paper associated with an audit.

Turning to the area of tax compliance - advances in the use of technology, especially our new Data Warehouse, allow our audit and compliance programs to more skillfully target areas to audit. By the selective use of third party data (e.g. wholesale purchases, bank records), we have been able to identify where sales tax gross receipts, which include markup, are below wholesale purchases.

This year, for the first time, we will undertake a new income tax compliance program that will allow us to identify Connecticut residents who have failed to file both a state and federal tax return. This has been made possible by comparing informational reports and other data using our data warehouse to create a profile of individuals who have taxable income but have been noncompliant in their filing and payment obligations.

At the Department we strive to provide effective and courteous service to the taxpaying public. We maintain a fully staffed call center; we provide a dynamic web site that is constantly being updated to provide new information and explanations to allow taxpayers to fulfill their filing obligations. We have an interactive Electronic Taxpayer Service Center that allows taxpayers to electronically file returns, make payments, view their taxpayer account and check the status of their refund.

As you are aware, paying tax obligations in a troubled economy can be a daunting task. To that end our collectors work with taxpayers to provide flexible payment plans where necessary and the adjustment of liabilities where appropriate. Our goal is to balance the need to obtain revenue for the state while still providing delinquent taxpayers the ability to obtain the funds they need to satisfy their delinquency.

Before closing, I want to compliment the hard work and professionalism of the Department employees. Collecting taxes is a challenging job. However, our employees continuously rise to the challenge.

I welcome the opportunity to continue to serve this state as Commissioner of Revenue Services.

Thank you for your time today. I look forward to answering any questions you may have.